Minimum Wage Review Committee Report

December 8, 2009

Honourable Marilyn More
Minister of Nova Scotia Labour and Workforce Development
5151 Terminal Road, 6th Floor
Halifax, Nova Scotia B3J 2T8

Dear Minister More:

On October 30, 2003, Government approved legislation to establish a Minimum Wage Review Committee. We are the members of the Committee. Representing employees: Rick Clarke, President of the Nova Scotia Federation of Labour and Tom Patterson, past Executive Director of the Nova Scotia Nurses' Union. Representing employers: Sandra Rodd, of Sun Life Financial and Steven MacPherson, General Manager of Jack Astor's Restaurant.

The function of the Committee is to conduct an annual review of the minimum wage and submit a report containing the Committee's recommendations. In 2007, government asked the Committee to consider a 3 year schedule of increases and a possible formula for determining the Minimum Wage. In its report of January 2008, the Committee recommended a series of increases to the minimum wage to April 1, 2011. The implementation of these will mean that by October 2010 a full time employee earning minimum wage will be very close to the projected Low Income Cut Off (LICO) for a single person.

We agreed to continue to meet, as required under the *Labour Standards Code*, and to monitor economic indicators to ensure that the planned increases are still supportable. In 2008/09 we concluded that there was no reason to alter the planned schedule of increases, and were pleased that government accepted this recommendation.

Again this year we have considered various indicators, including economic conditions and the current financial crisis; Statistics Canada data including the Consumer Price Index, Median Hourly Wage, LICO, a profile of minimum wage workers; labour trends in NS and other jurisdictions; the changing value of minimum wage; and other factors. We have concluded that there is no reason to alter our recommendations of 2008 and 2009. We continue to recommend that the minimum wage increase to $9.20 per hour effective April 1, 2010 and to $9.65 per hour effective October 1, 2010.

The Committee wishes to acknowledge and thank the staff of the Department of Labour and Workforce Development for their support and facilitation of the work of the Committee. In particular, recognition should be given to Marjorie Davison, Holly Cameron and William Grant. In addition, the Committee wishes to acknowledge and thank Brian Watson from the Department of Economic and Rural Development for his research and analysis of complex data that enabled the Committee to make informed decisions.

It has been a pleasure conducting this review for the Department of Labour and Workforce Development, and we look forward to your response.

Respectfully submitted by,

Rick Clarke

Steven MacPherson

Tom Patterson

Sandra Rodd

1. Background

In Nova Scotia, workers have their rights protected by the province's *Labour Standards Code*. The Code provides direction to employers and employees on a wide range of topics, including the minimum wage. Some of the *Code* applies to non unionized workers only, but the minimum wage applies to all workers.

In 2003, the Code was amended to establish a Minimum Wage Review Committee. The Committee is composed of equal numbers of employer and employee representatives appointed by the Minister. The Committee is required to conduct an annual review of the minimum wage and prepare a Report to the Minister containing the recommendations of the Committee. Within thirty days after the Minister receives the Report it will be made public, and within 60 days of receiving the Report the Minister will publish a response.

The recommendations made by the Committee since its establishment in 2004, all of which were accepted by government, are outlined below.

Committee report	Increase recommended	Monetary Increase	% increase	Effective Date
March 2005	$6.50 to $6.80	$0.30	4.6%	Oct 1, 2005
	$6.80 to $7.15	$0.35	5.2%	April 1, 2006
December 2006	$7.15 to $7.60	$0.45	6.3%	May 1, 2007
January 2008	$7.60 to $8.10	$0.50	6.5%	May 1, 2008
	$8.10 to $8.60	$0.50	6.2%	April 1, 2009
	$8.60 to $9.20	$0.60	6.9%	April 1, 2010
	$9.20 to $9.65	$0.45	4.8%	October 1, 2010

If the increases proceed as planned, by October 2010 the minimum wage of $9.65 will be very close to the LICO (Low Income Cutoff) line for a single person working full time in a community the size of Sydney. The rate for inexperienced workers will increase proportionately and will be 50 cents less than the regular minimum wage rate.

2. Principles to Consider

The major principles to consider when setting the minimum wage are:

- maintaining fairness for the lowest paid members of our workforce;
- recognizing minimum wage and cost of living trends;

- balancing the issues relative to economic competitiveness for industry.

3. Purpose of Minimum Wage and Its Impact on Poverty

The purpose of minimum wage legislation is to guarantee a minimum standard of pay. Minimum wage legislation forms part of the response to the problem of low pay, and was developed to protect the most vulnerable workers.

About 60% of minimum wage workers live with family or relatives. Most are under 25 years old. Most work part time. Relatively few are sole family earners. They are concentrated in the accommodation, food service and retail trade sectors. Very few are unionized. Many are in short term employment. Women are overrepresented among minimum wage earners.

In 2007, approximately 36,400 employees received wages near the minimum wage in Nova Scotia (below $8.00 per hour). This represents about 9.3% of employees paid by the hour in Nova Scotia, which in 2007 included 390,500 full and part time workers. In 2006, those earning less than $8.00 per hour totaled 11.97% of the workforce.

As the following table indicates, the number of employees earning minimum wage has increased in Nova Scotia. The figure was 6.0% or 22,800 employees for 2007/08 and 6.6% or 25,000 employees for 2008/09. This is consistent with the national trend, and results from the interaction of minimum wage increases and economic conditions.

Percentage of Employees Earning Minimum Wage by Province
Alberta Minimum Wage Profile – government of Alberta, April 2009

	April 2007 – March 2008	April 2008 – March 2009
Canadian Average	5.0%	5.4%
Nova Scotia	6.0%	6.6%
Ontario	5.6%	7.2%
Saskatchewan	3.4%	3.1%
Newfoundland and Labrador	6.4%	8.9%
Prince Edward Island	7.0%	5.8%
Quebec	5.5%	5.9%
Alberta	1.3%	1.4%

As important as a minimum wage increase is for those who are paid at the lowest level, an increase is important to many more working Nova Scotians because the minimum wage acts as a benchmark wage. Employers who pay lower wages tend to measure their pay scales against the minimum wage. As minimum wages rise, so do other wage rates. Thus, in 2007, in addition to 36,400 earners under $8.00 per hour, an additional 47,600 employees worked for wages between $8 and $9.99 per hour. In total, the 22% of employees who earned between the minimum wage and $9.99 per hour may have been impacted by the minimum wage increase in 2007. However, as discussed below, economic and demographic pressures are also creating upward pressure on entry level wages in Nova Scotia.

Committee members agree that minimum wage alone cannot fix the problems of the working poor. The cost of necessities and utilities, tax on these items, an increase in precarious employment (casual, part-time, self-employment), lack of well paid jobs, and the high cost of post-secondary education contribute to the concerns of the working poor. In addition to minimum wage, other strategies can help alleviate poverty: increases in the basic personal income tax exemption to put more money in the pockets of low income earners (see discussion below on after-tax minimum wage); education subsidies; affordable transportation, housing and child care.

While minimum wage alone cannot effectively address the problem of poverty, it is the only tool within the Committee's mandate. As the Committee has noted previously, a committed and multi-focused approach is required to effectively combat poverty, similar to the approach taken by government with respect to deficit and debt reduction. The Committee is happy that the province is implementing a Poverty Reduction Strategy.

4. Minimum wage increases across the country

When recommending the minimum wage rate, the Committee considers minimum wage rates across the country.

The chart below shows the current minimum wage and projected increases across Canada. Saskatchewan, Ontario and Newfoundland have moved to a three year projection of minimum wage rates, and Alberta and Yukon adjust their minimum wage to a statistical indicator each year.

	2007	2008	2009 – Oct. 1	2010
Alta	$ 8.00	$8.40	$8.80	indexed to increase in average wage.
BC	$8.00	$8.00	$8.00	
Man	$8.00	$8.50	$9.00	

NB	$7.25	$7.75	Apr. 1 - $8.00 Sept. 1 - $8.25	
NL	$7.50	$8.00	$9.00	$10.00 by July 2010
NWT	$8.25	$8.25		
NS	$7.60	$8.10	$8.60	$9.65 by October 1, 2010
Nunavut	$8.50	$10.00		
Ont	$8.00	$8.75	$9.50	$10.25
PEI	$7.50	$8.00	June 1 - $8.20 Oct, 1 - $8.40	
Que	$8.00	$8.50	$9.00	
Sask	$7.95	$8.60	$9.25	Bring Min Wage to LICO, beginning in May 2010 indexed to CPI.
Yukon	$8.37	$8.58	$8.89	Indexed to CPI annually
Average	$7.91	$8.39	$8.84	

Despite increases in recent years, the minimum wage in every province except Newfoundland and Labrador is less in real terms (adjusted for inflation) today than it was in the mid 1970s. *(Economic Climate for Bargaining – CUPE, Sept. 2009)* Minimum wages began a decline in real terms through the late 1970s and the 1980s and increased gradually in the 1990s and the present decade. The minimum wage in Nova Scotia has increased 18% in real terms since 1988.

5. Minimum wage in a changing economy - Outlook for 2016

Driving force	Impact on minimum wage workers	Impact on wages
Aging & declining workforce	Lower supply	Up
Pensions replace wages	Increased demand for services	Up
Low education retire	Lower supply	Up
Female workers stabilize	Lower supply	Up

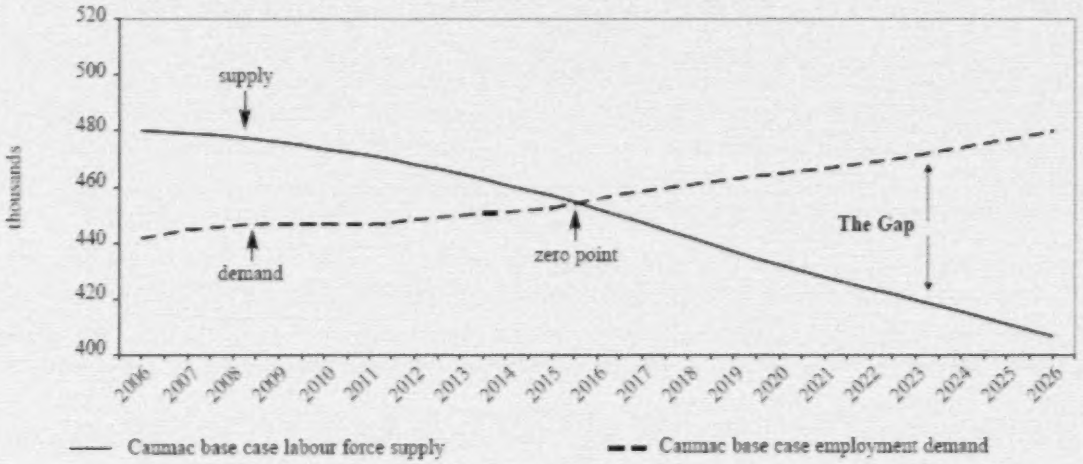
Productivity improvements	Machines replace workers	Up
Need for increased skills	Better jobs available	Up

Source: Nova Scotia Department of Economic Development, August 23, 2007.

The above table looks forward to the changing labour market dynamics that will continue to impact on wages as 2016 approaches.

The graph below looks at the changing demographics that will continue to impact on wages as 2016 approaches and projects a labour shortage by 2016.
The current economic downturn in Nova Scotia may slightly delay the full impact of these dynamics, but will not alter them fundamentally.

Figure 2: ***Labour Supply and Demand Projections, Nova Scotia, 2006–26***



Source: Canmac Economics Ltd. model.

Source: Knowledge Economy Report Card Summit, November 17, 2006 presentation by Dr. James McNiven, Professor, Dalhousie University.

6. Consumer Price Index

CPI for NS By Year	% Change
2000	3.5%
2001	1.8%
2002	3%
2003	3.4%

2004	1.8%
2005	2.8 %
2006	2.0%
2007	1.9%
2008	3.0%
2009 September	-0.8%

The decrease in 2009 has largely been driven by decreases in the prices of energy. Excluding energy the rate for September 2009 would be 1.9%. The Department of Finance projects an overall CPI of -0.5% for 2009.

7. Low Income Cut Off Levels

A person in low income is someone whose family income falls below Statistics Canada's low income cut-offs (LICOs). The LICO lines are calculated in relation to the expenditure of an average family on the essentials of food, clothing and shelter. If a family spends 20 percentage points more of its total income on these essentials than the average family, then it falls beneath the LICO line. LICOs are calculated and reported for families of different sizes, living in communities of different sizes ranging from rural to large urban areas. LICO lines are set nationally and do not vary province by province.

Although LICO lines are not "poverty lines" per se, they are the most frequently used metrics when discussing the measurement of poverty and low income in Canada The committee recommends that government continue to use LICO as a target for the 2010/11 minimum wage rate and as a basis for setting minimum wages in future.

8. Ratio of minimum wage to median wage

One metric that is used to measure the minimum wage is its relationship to the median wage. Although the Committee has decided to use LICO, rather than a ratio to the median wage, in setting a "formula" for recommended increases, consideration of this ratio provides useful background and some comparison between differing economies. Canadian minimum wages are at the low end of the international spectrum for developed economies as a ratio to the median wage.

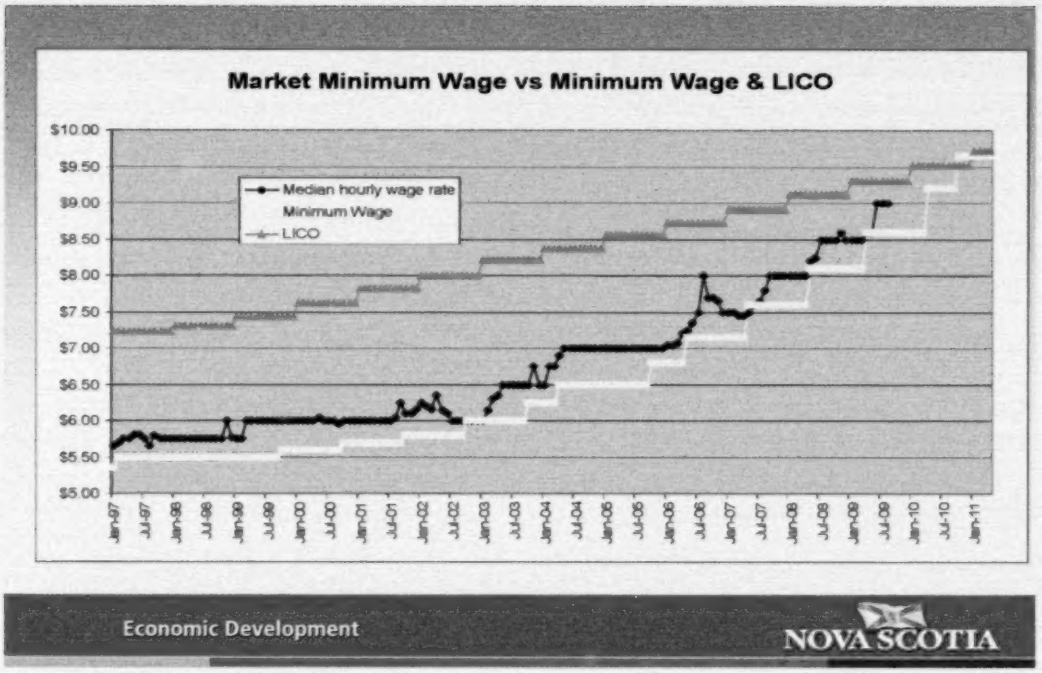
As shown in the table below, in Nova Scotia the median wage as of October 1, 2009 was $16.25 per hour (Stats Can). With the minimum wage of $8.60, the ratio was 52.9%, an increase from the ratio of 51.5% in October 2008. This shows that the minimum wage is moving in a positive direction as a percentage of the median wage.

Canadian figures for the ratio range from a high of 56% in PEI to a low of 40% in B.C and Alberta (where the median wages are the highest in Canada). However, as noted above, very low percentages of Albertan and B.C. employees work at minimum wage, so the impact of this ratio is much less than in Nova Scotia.

The range of ratios is narrower if, rather than considering the statutory minimum wage; we look at the "market minimum wage", established by taking the median wage paid to entry level workers aged 15 to 24 in sales and service occupations. In Nova Scotia in June 2007, shortly after the May 2007 minimum wage increase, the market minimum was $7.60, but this had increased to $8.00 by October 2007. In 2008, the market minimum wage was $8.50 per hour in by October 2008. In September 2009, the market minimum wage was $9.00 per hour, well above the minimum wage of $8.60.

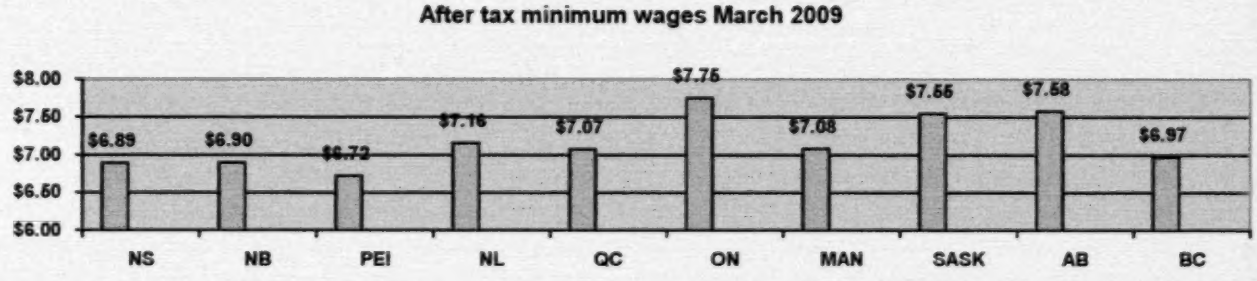
Province	**Minimum Wage as of October 1, 2009**	**Market* Minimum Wage September 2009**	**Median Wage September 2009**	**Percentage of minimum wage to median wage (and market wage to median wage)**	**2008 ratios**
Nova Scotia	$8.60	$9.00	$16.25	52.9% (55.4%)	51.5% (54.1%)
Alberta	$8.80	$11.00	$22.00	40.0% (50.0%)	39.9% (52.3%)
BC	$8.00	$10.00	$20.00	40.0% (50.0%)	40.0% (50.0%)
Manitoba	$8.75	$9.50	$17.50	50.0% (54.3%)	50.0% (52.9%)
New Brunswick	$8.25	$8.50	$16.18	51.0% (52.5%)	49.7% (51.9%)
Newfoundland and Labrador	$9.00	$9.00	$17.00	52.9% (52.9%)	49.8% (52.9%)
Ontario	$9.50	$9.50	$20.00	47.5% (47.5%)	44.4% (45.7%)
Quebec	$9.00	$9.50	$18.56	48.5% (51.2%)	47.2% (50.0%)
PEI	$8.40	$8.50	$15.00	56.0% (56.7%)	53.3% (54.7%)
Saskatchewan	$9.25	$10.00	$19.23	48.1% (52.0%)	46.6% (51.5%)

Labour market dynamics have kept the market minimum wage above the minimum wage, as shown in the chart below, which also shows that Nova Scotia remains on target to reach the LICO by 2010 as planned.



9. After Tax Minimum Wage

The 2009 Alberta Minimum Wage Profile analyzes minimum wages and provincial tax policies across Canada and develops an "after tax minimum wage" based on basic federal and provincial income and sales taxes for minimum wage earners. Based on March 2009 rates, when income and sales taxes are factored in, Nova Scotia moves from 7th to 9th place in a provincial minimum wage ranking. As noted above, tax policy plays an important role in combating poverty. Many groups, including the Canadian Federation of Independent Business, have recommended that government use tax policy, rather than or as well as minimum wage increases, as a central tool to assist the "working poor." The Committee, while believing that minimum wage increases are necessary, suggests that government review its tax policies as they impact the working poor.



10. Balancing issues relative to economic competitiveness

The purpose of exploring economic competitiveness is to determine, from a Labour Standards perspective, the cost of doing business in Nova Scotia. This means statutory payroll costs which include: vacation pay, statutory holidays, Employment Insurance, Canada Pension Plan, Workers' Compensation, and other miscellaneous categories, such as payroll taxes.

All jurisdictions, except Quebec, pay the same rates for Canada Pension Plan and Employment Insurance. Canada Pension Plan represents 4.95% of payroll and Employment Insurance is 2.77%. Vacation pay is 4%. Workers' Compensation premiums are higher than the national average.

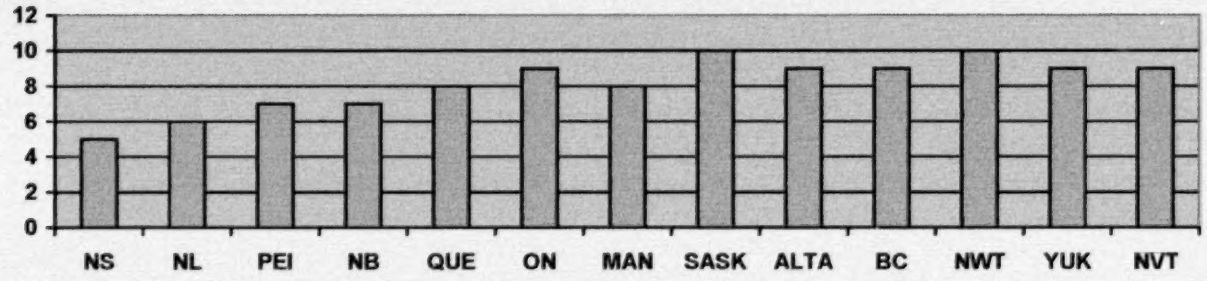
Average Workers Compensation Assessment Rates

PROVISIONAL AVERAGE ASSESSMENT RATES, PER $100.00 PAYROLL		
	2008	2009 (forecasted / preliminary)
Alberta	$1.32	$1.32
British Columbia	$1.56	$1.56
Manitoba	$1.60	$1.60
New Brunswick	$2.05	$2.03
Newfoundland and Labrador	$2.75	$2.75
Northwest Territories and Nunavut	$1.71	$1.71
Nova Scotia	$2.65	$2.65
Ontario	$2.26	$2.26
Prince Edward Island	$2.15	$2.16
Quebec	$2.14	$2.10
Saskatchewan	$1.69	$1.66
Yukon	$2.94	$3.00

Association of Workers Compensation Boards of Canada

Nova Scotia has the lowest number of statutory holidays in Canada. The Labour Standards Code presently provides 5 paid holidays. The national average is 8.15 paid holidays. Estimations of the cost of a public holiday range from 0.4% to 0.5% of payroll.

Statutory Holidays in Canada



***note**: In Nova Scotia and Manitoba Remembrance Day has special rules. Some employees who work on Remembrance Day are entitled to some benefits, but employees who do not work are not entitled to holiday pay.*

The Canadian Restaurant and Food Services Association website estimates that payroll taxes are about 40% of all taxes paid by food service operators. Canada Business (Gov of Canada website) estimates that staff benefits add between 10-30% above wages/salaries depending on benefits offered.

The table below shows a comparison of profitability for Canadian and Nova Scotian businesses that employ workers at or near minimum wage, for 2006, the most recent data available. Nova Scotian businesses are very close to the national average in profitability.

Operating Statistics for Industries that hire Minimum Wage Workers

Industry	Canada	Nova Scotia
	Operating Profit Margin	
	2006 (5 year avg)	2006 (5 year avg)
Accommodation Services	17.6% (14.1%)	14.4% (14.4%)
Food Service and Drinking Places	4.3% (4.0%)	4.5% (4.7%)
Personal Care Services	11.2% (9.8%)	8.5% (7.0%)
	Gross Margin	
	2006 (5 year avg)	2006 (5 year avg)
Retail Trade	26.7% (24.5%)	26.4% (24.1%)

Source: Statistics Canada

11. The Current Economic Situation

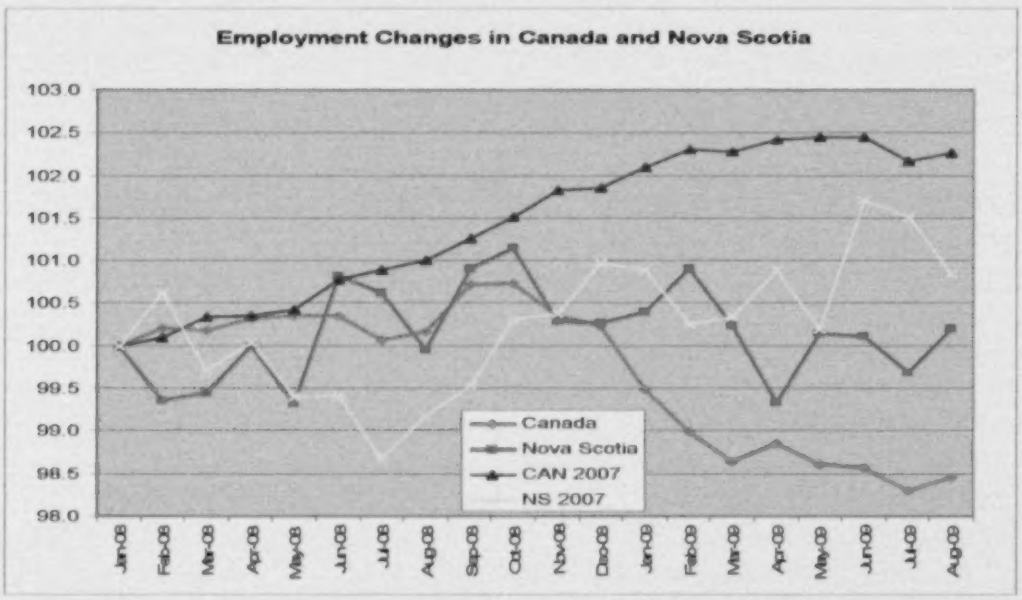
During 2009, Nova Scotia, like all other provinces in Canada and other countries, experienced an economic slowdown as a result of the global economic crisis. However, the recession has been comparatively mild in Nova Scotia and appears to be of relatively short duration. Nova Scotia has done better than most Canadian provinces, and Canada has done better than most other countries. The evidence suggests that a recovery is beginning.

In the September 2009 budget, the Department of Finance predicts that the economy will grow .3% this year and 1.8% in 2010, corrected for inflation. It is expected that Nova Scotia will do better than Canada this year and lag Canada in 2010.

During economic slowdowns and recessions, employment losses occur and the overall employment level declines. In the 1980 recession in Canada (slowdown in Nova Scotia) employment declined by 10,000 jobs and quickly recovered within 24 months. The 1990 recession hit Nova Scotia hard with over 25,000 jobs lost. Employment did not recover for over 6 years. The slowdown in 2000 saw employment gains in Nova Scotia.

The Department of Labour and Workforce Development projects that the unemployment rate in Nova Scotia will be approximately 9.2% in 2009 and 9.5 – 10% in 2010.

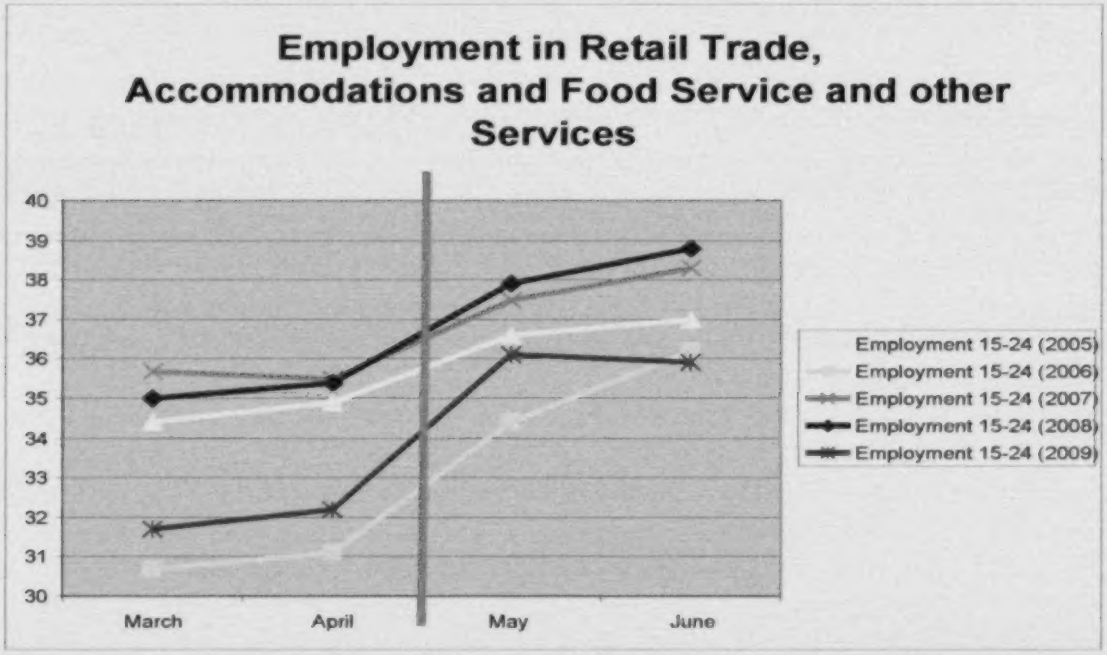
As the chart below illustrates, employment in Nova Scotia has been relatively steady in 2008/09, and well above the Canadian average.



Overall, the employment picture in Nova Scotia is quite strong, although there are regional disparities. However, in the summer of 2009, the student unemployment rate rose sharply compared to 2008, which was the strongest year on record. The rate rose from 7% in July 2008 to 17.6% in July 2009, and from 10.8% in August 2008 to 14.8% in August 2009.

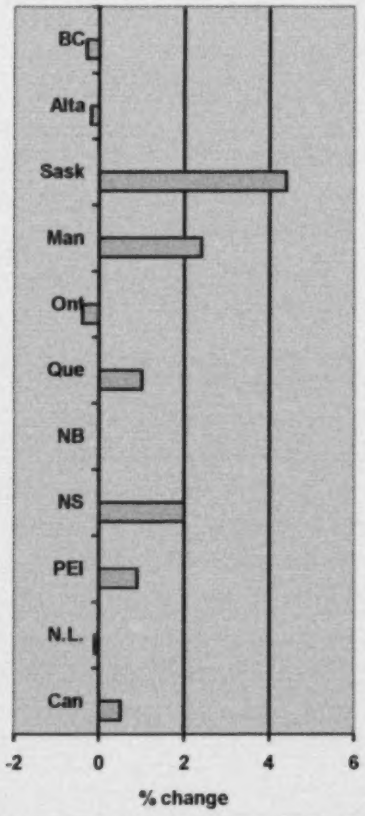
The chart below shows spring/summer employment of young people in minimum wage sectors from 2005 - 2009. For the first time in several years, there was a decline in this category of employment from May to June 2009, following a minimum wage increase on April 1, 2009.

One of the arguments raised against minimum wage increases is that they will cause an increase in youth unemployment. However, given the lack of any such relationship in Nova Scotia in previous years, the fact that market minimum wage continues to track above minimum wage, and the overall economic climate, the Committee does not believe that this spring's minimum wage increase was a significant cause of this downturn. Weak youth summer employment is consistent with national trends. In August 2009, young Employment Insurance recipients increased by 34% over the previous year in Nova Scotia, while nationally the increase was 94%,



Gross Domestic Product (GDP)

As the chart below illustrates, Nova Scotia's GDP increased by 2% in 2008, well above the national average of 0.5%.



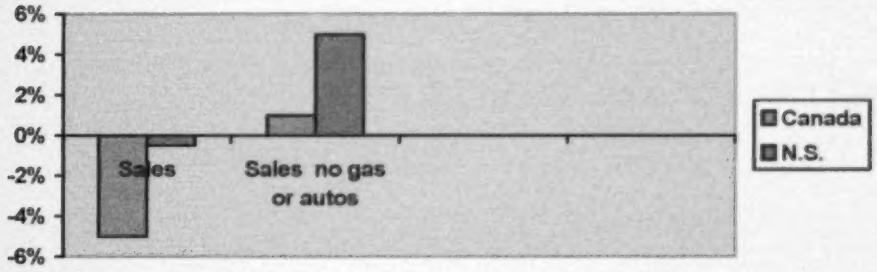
Retail sales

Minimum wage workers are impacted by recessions as discretionary spending decreases. In the 1980 recession retail sales declined 3.6%, resulting in a decline in employment in minimum wage industries of 13%. 40% of the job losses were in the 15 to 24 age group. The slowdown was short lived, with retail sales returning to previous levels in less than a year.

The 1990 recession saw a dramatic decrease in retail sales, down 12.6%. Employment in minimum wage industries declined only 7%, with 36% of these job losses going to youth aged 15 to 24. Sales and service occupations, where the majority of minimum wage workers are found, saw employment decline 5%. The retail slowdown was protracted as sales did not recover for almost two and a half years.

Retail sales in Nova Scotia have remained relatively strong in 2009. In July 2009, retail sales decreased slightly compared to a year earlier. If gasoline and automobile sales are excluded, retail sales increased by about 5% from July 2008 to July 2009. Nova Scotia had significantly stronger retail sales than Canada as a whole.

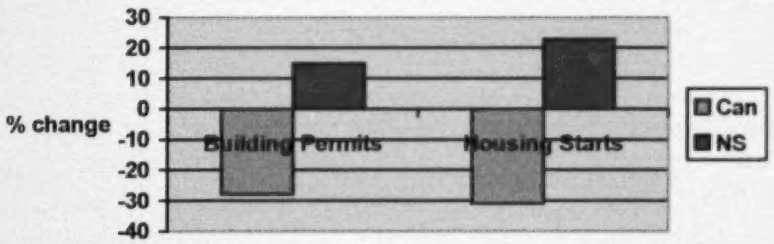
Retail Sales - Year over year change



Housing Starts

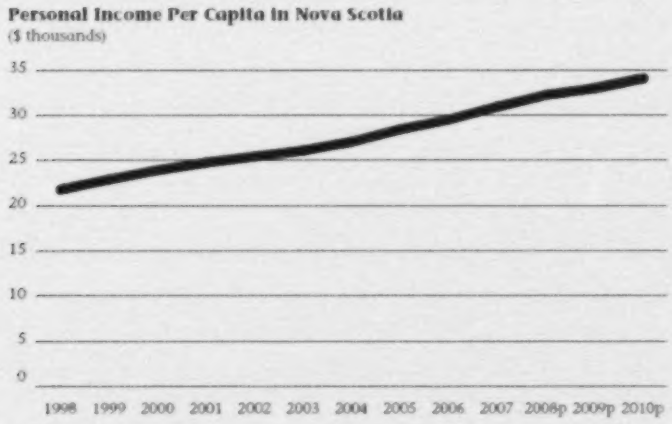
Housing starts and the issuance of building permits in Nova Scotia bucked the national trend, increasing significantly from 2008 levels, as the chart below illustrates.

Building Permits and Housing Starts - Year over Year Change



Personal Income Per Capita

As the chart below indicates, personal per capita income has increased consistently since 1998, and this is projected to continue through 2010.



Source: Statistics Canada, Cat. Nos. 13-001-PPB, 13-213-PPB, 91-215-XIE (Statistics Canada Annual Demographic Statistics) and Nova Scotia Department of Finance

12. Conclusion

Based on the above analysis, the Committee believes that it is not necessary to alter the current schedule of minimum wage increases. While the current economic environment is in flux, the long term economic and labour market dynamics that support implementing the increases have not changed. Canada has done better than most other countries during the global recession, and Nova Scotia has done better than most provinces. A recovery may already be underway and is forecast to continue through 2010. The Committee believes that minimum wage workers should share the benefits of Nova Scotia's comparatively strong economic performance.

13. Recommendations:

1. **We recommend that the government continue to implement the approved increases - $9.20 and $9.65 starting April 1, 2010 and October 1, 2010 respectively, with the rate for inexperienced workers remaining $0.50 less than the regular rate.**

2. **Once the LICO threshold is reached in September 2010, we recommend that the minimum wage be indexed to CPI and periodically re-indexed to the LICO (the LICO and CPI increase at very similar rates).**